



**Director of  
Central  
Intelligence**

**Top Secret**

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**19 June 1982**

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ISRAEL-LEBANON: Continuing Pressure

(Information As of 2300 EDT)

*//The Israelis are tightening their stranglehold on the Palestinian forces in Beirut and keeping up their pressure on Syrian positions on the Beirut-Damascus highway. There have been no major changes in Syrian or Israeli forces dispositions in Lebanon.//*

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According to press reports, Israeli units yesterday advanced to the line that separates the Muslim and Christian sectors of the city in preparation for setting up positions at key crossing points into Palestinian-controlled West Beirut.

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Palestinian and leftist Lebanese forces are continuing to refuse to surrender their arms. The Palestinians are convinced that surrendering their arms would mean the end of the PLO, even if the Lebanese agreed to allow them to remain in Lebanon and engage in political activity.

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George Habbash, the leader of the largest PLO leftist group, said yesterday the Palestinians would continue to fight. He also said there would be no negotiations with the Lebanese Government until the Israelis withdrew.

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A spokesman for the joint forces--the combined command for the PLO and leftist militias--said over Palestinian radio today that both groups were refusing to surrender their arms.

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#### Security Council Vote

The UN Security Council yesterday approved a two-month extension of the current UN peacekeeping force in southern Lebanon. The USSR and Poland abstained. [ ]

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Comment: A further extension of the mandate may prove difficult to arrange. The Soviets are not likely to veto an extension, but they probably will attempt to exploit the discussions to improve their position in the area. The nations that have contributed to the current force probably will insist on conditions that Israel will find difficult to accept. [ ]

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Israel has made it clear that it wants a new and enlarged multinational force modeled on the Sinai peacekeeping operation. They oppose any connection between this force and the UN, which they regard as pro-Arab. [ ]

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#### Soviet Activity

[ ]

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TASS attacked Secretary of State Haig's comment yesterday that under certain circumstances the US might participate in a peacekeeping force in southern Lebanon. It claimed that such a force would constitute US "occupation" of part of Lebanon. [ ]

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[ ]

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Moscow's repeated and strident criticism of the Israeli proposal of a multinational peacekeeping force with US participation reflects its fear that the US military presence in the Middle East will increase at a time when the Soviets' position has been weakened by Israel's successes against their two primary allies in the region. [ ]

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ARGENTINA-UK: Diplomatic Hard Line

(Information as of 2300 EDT)

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[redacted] Buenos Aires has decided to return to a hard line in order to deflect internal criticism resulting from the surrender. Argentina also may believe that acceptance of British terms will jeopardize its case for UN intervention and supervision of a solution to the crisis.// [redacted]

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//For domestic political reasons, Prime Minister Thatcher would be reluctant to turn to the UN too soon following the cessation of hostilities. [redacted]

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[redacted] The West Europeans believe that a prolongation of the crisis will detract from the UK's contribution to NATC and cause more damage to West European - Latin American relations.// [redacted]

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#### Repatriation of Argentine Prisoners

//According to press reports, the UK has received Argentina's guarantee of safe passage for the Canberra and the Norland to repatriate 6,000 prisoners. The prisoners will be returned to the mainland as soon as possible. Argentina has submitted a request to the British that Argentine ships be used to assist the transfer, but the British have not yet responded.// [redacted]

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//After some initial confusion reportedly based on faulty Argentine estimates, the British officially gave the latest estimate of the number of Argentine prisoners now held on the Falklands as 11,845. The British Government has said it would detain Argentine commanders and special forces until an assurance has been received from Argentina that all fighting is at an end.// [redacted]

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Comment: //The authorization to grant safe passage for British ships to an Argentine port represents a change in the government's position. [redacted]

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The new government

is proceeding with measures to return most of the prisoners to the mainland quickly.//

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#### EC Sanctions

EC Foreign Ministers will discuss lifting the sanctions against Argentina when they meet tomorrow in Luxembourg. According to a Belgian NATO official, the EC will maintain sanctions if there is any doubt whether Argentina will accept a cessation of hostilities with the UK.

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Comment: //Although EC members are anxious to end the restrictions on importing Argentine goods, they are unlikely to remove restrictions on arms exports to Argentina until Buenos Aires accepts London's demand for a formal end to hostilities.//

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EL SALVADOR: New Government Setback

*//Another town in northern Morazan Department has fallen to insurgent forces, and more government reinforcements are being sent to the area.//* [ ]

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*//The loss of San Fernando follows the death of two high-ranking Army officers attempting to visit the besieged town. The officers, one of whom was the Deputy Defense Minister, were killed when their helicopter was shot down by guerrilla small arms fire. The fate of the government unit in San Fernando is not yet known.//* [ ]

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*//Meanwhile, the government's third US-trained quick-reaction battalion is being sent to aid the other two that are advancing on Perquin. Their movement has been hindered by poor weather, guerrilla ambushes and lack of effective air support.//* [ ]

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The insurgents are continuing to harass government garrisons elsewhere and to destroy bridges and powerlines.

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Comment: *//The deterioration of the situation in northern Morazan will be a strong blow to military morale. Continued insurgent successes could erase many of the government's gains of the last few months.//* [ ]

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*//Although Perquin probably will be taken soon, a major government effort will be required to dislodge the insurgents from the entire region. Such an effort is unlikely, however, because government units and installations elsewhere would be vulnerable to insurgent actions. The insurgents still appear capable of little more than harassing attacks and sabotage raids except in Usulután, where they may attempt to seize additional towns.//* [ ]

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INTERNATIONAL: IAEA on the Defensive

*At the meeting last week of the Board of Governors of the International Atomic Energy Agency, Argentina declared interest in military applications of nuclear technology, and the deadlock persisted in resolving the Pakistani nuclear safeguards problem.*

The Argentines criticized the British for allegedly using nuclear-powered submarines in the war. The head of the Argentine National Atomic Energy Commission asserted that Argentina had been put at a disadvantage and urged the IAEA to expand its definition of nuclear weapons to include nuclear-powered submarines. He also stated Buenos Aires would reserve its right to use nuclear energy for nonproscribed military purposes.

With regard to Pakistan, the board admitted it still cannot guarantee the timely detection of a diversion of nuclear material from the power reactor near Karachi. IAEA Director General Blix called on Islamabad to demonstrate a willingness to amend the existing safeguards agreement to permit the installation of new containment and surveillance equipment at the reactor. The Pakistani representative reiterated Islamabad's longstanding reluctance to renegotiate but emphasized that his government would consider any proposals that fall within the existing safeguards arrangements.

Argentina's declaration and other recent statements indicate that national security concerns will have an increasing effect on the future direction of the Argentine nuclear program. Buenos Aires may take steps that could facilitate the clandestine development of nuclear weapons or the so-called peaceful nuclear explosives, which it insists it has every right to develop.

Unless Islamabad is more flexible, the IAEA appears to have reached a dead end in its effort to bring the Pakistani reactor back under effective safeguards. The Board has asked Blix to submit another progress report in late July. In requesting the report, there were ominous signs that the Board members may divide over the Pakistan issue along North-South lines, with some developing nations less willing than industrial nations to put pressure on Islamabad to meet the IAEA's demands.

Comment: The continued dissension over such sensitive issues will strengthen the view that the IAEA is finding it increasingly difficult to play an effective non-proliferation role.

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IRAQ-UN: Seeking Security Council Action

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Comment: The Security Council probably will not become involved in helping to negotiate a settlement because Iran remains opposed to UN involvement. Secretary General Perez de Cuellar does not plan to send his special representative Olof Palme to the area unless he gets assurances from both sides that the visit would be useful. Iraq and its Arab allies will attempt to use the Security Council to prevent an invasion of Iraq.

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SPECIAL ANALYSIS

POLAND: Bleak Financial Outlook

*//Poland's hard currency debt remains a major obstacle to economic recovery. Scarce foreign exchange has to be spent on debt service rather than on imports. New credits are not available to finance a deficit, and payments arrears are mounting by more than \$800 million monthly. The Poles have not begun payments due this year, and rescheduling negotiations on obligations for 1982 are off to a slow start. Poland almost certainly will not be able to obtain sufficiently generous rescheduling terms to close its financial gap this year.//*

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Poland owes Western creditors \$9.8 billion in debt service due in 1982 under original loan contracts, and \$1.4 billion in debts carried over from last year and in payments due under debt relief agreements for 1981. Against this total of \$11.2 billion, the regime projects for this year at best a \$700 million trade surplus and a positive balance of \$300 million on current account items other than trade and interest, leaving a financing requirement of \$10 billion.

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Little Progress in Rescheduling

*//Although Western governments are requiring certain political steps as preconditions to talking about additional rescheduling, some are quietly anxious to open negotiations in order to stake claims on whatever debt service payments are made. Some banks appear increasingly willing to re-schedule private loans if governments continue to haggle over official credits, but the banks themselves have been unable to agree on terms.//*

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Negotiation of the terms for any agreement in 1982 will be difficult. The agreement in 1981 with the commercial banks rescheduled 95 percent of principal payments but gave no relief from interest payments.

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//In 1981, credit guarantees extended by Western governments allowed Poland to finance a trade deficit and to pay a large part of the debt service that was not rescheduled. Western governments, however, are unwilling to extend new money this year and banks are unwilling to increase their exposure.//

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//Bankers are counting heavily on Warsaw's projected \$700 million trade surplus to pay interest due this year. Although such a surplus is possible, the bankers are likely to be disappointed. Interest charges this year are estimated at \$1.35 billion on unguaranteed debt.//

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//Moreover, the surplus earned early this year was earmarked to pay overdue interest in 1981. The Poles may choose to run a smaller trade surplus. The Polish press in April announced a 20-percent increase in planned imports in the second quarter--implying balanced trade.//

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#### Rescheduling Possibilities

The rescheduling outlook is so uncertain that a wide range of outcomes is possible. Warsaw could barely close its financial gap this year if it earns a \$1 billion surplus on its current account, obtains credits of \$1 billion, and concludes rescheduling agreements with all creditors covering all of the debt service for 1982. More likely possibilities based on incomplete rescheduling leave Poland with a financial gap of from \$1.8 billion to as much as \$9 billion.

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#### Default Remains Possible

//A few banks might benefit from a Polish default by seizing Warsaw's meager assets in the West, but a formal default would require large loan writeoffs and end the trickle of payments coming from Poland. Although the bank group has been able to keep in line the smaller creditors who favor default, the bleak financial outlook could increase pressure for a formal declaration in several ways:

- Disagreement and disorganization among banks increase the likelihood that creditors will try to cut separate deals with Warsaw, leading excluded banks to retaliate.

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- Mounting unpaid debts, especially on interest payments, will result in pressure from bank regulators to order writeoffs for loans to Poland.
- The unsettled situation in Poland could yet lead to events that would induce government creditors to force a formal default.//

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